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Strategic Human Capital

Preserving a Vital National Asset

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Conclusions

- Relatively little attention has been devoted to understanding and explaining the value that human capital brings to industrial productivity in both the private and public sectors to the strategic political, economic, and political objectives of national security.
- Manpower reductions in the Department of Defense and in the defense industry are focused on making personnel strengths match shrinking budgets. These reductions neither account for the strategic value of human capital nor for the possible consequences of its depletion and the resulting dispersal and loss of strategic knowledge, skills and experience.
- Strategic human capital-and its probable dispersal and loss-is critical to defense industry production capability because it takes a long time to develop, embodies perishable skills, is not easily substitutable, and cannot be passively mothballed like physical capital.
- Trained, skilled, experienced employees are being lost to the defense establishment by current "downsizing" requirements. Rather than relinquishing these valuable assets to job market forces they should be strategically re-employed in industries that can best make use of their specialized training and experience.

Downsizing and Human Capital

Americans have witnessed large-scale downsizing in the public and private sectors since the late 1980's. Work rolls have been slashed largely based on the need to reduce operating costs in the face of a more competitive global environment for industries and shrinking operating budgets for government agencies. But these downsizing strategies have been flawed. Corporate and government policymakers have reduced operating costs associated with infrastructure and manpower, but they have overlooked the effects these actions will have on the availability of **strategic human capital**. In short, think of strategic human capital as *the skills, training and work experience aggregated across employees within public institutions and private industries that are instrumental to the achievement of national security objectives*.

Human Capital . . . The Lifeblood of Defense

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From the beginning of the Cold War, the United States has maintained a credible military force. The U.S. defense establishment has been composed of a collective of uniformed and civilian human capital that successfully responded to the unique demands of equipping, sustaining, and operating the components of military security. These workers can be classified as strategic human capital; their numbers and capabilities are not trivial. Just over 3.5 million civilians were employed in a variety of occupations, by the private sector, in support of defense related projects in 1987, and one million civilians worked directly for DOD. This strategic human capital consisted of aerospace engineers, shipyard workers, and munitions technicians who designed, built or maintained defense technology and equipment. The pool of DOD's strategic human capital also included the managers and administrative personnel who successfully planned and achieved objectives within the organizations that comprised the military-industrial complex. The downsizing of DOD will cause hundreds of thousands of trained, experienced workers to leave the defense establishment and scatter to unknown job destinations.

An Unprecedented Exodus of Skilled Personnel is Underway

The jettisoning of experienced DOD employees into the civilian labor market has steadily increased since the end of the Cold War. In 1988, these actions were amplified by the first round of base closures and realignments recommended by the Base Alignment and Closure Commission (BRAC). The first round recommendations resulted in the loss of 11,900 civilian jobs. Three years later, DOD downsizing and the 1991 BRAC's recommendations resulted in the loss of 27,900 civilian jobs. These totals escalated during the 1993 BRAC recommendations, resulting in 42,300 civilian jobs. On July 13, 1995, President Clinton approved the 1995 BRAC closure list. More than 60 additional military installations were affected and over 34,000 additional civilians are expected to lose their jobs. The anticipated increase in the number of dislocated DOD employees is not likely to abate. By the end of the century, the Defense Department will begin closure actions for 30 more large military bases and will begin realigning about 110 others.

Workforce reductions within defense industries have mirrored the downsizing in DOD. The total layoffs of highly skilled defense industry employees are expected to exceed 42,000. Workforce reductions in these industries are occurring principally in response to reduced defense budgets. But there are costs associated with these reductions, particularly in regard to defense firms' production capabilities. Defense firms are similar to firms in other business sectors in that they rely on partnerships with suppliers and corporate alliances to leverage their production capability. As a consequence of reduced defense spending, many partnerships will dissolve as firms either cease to exist or will choose to participate in non-defense markets.

Ultimately, the rapid response capabilities of defense organizations and defense industries, as we currently know them, may never exist again. The loss of both physical capital (i.e. the land on which the base sits, and the base infrastructure and technological assets) and human capital will be reduced during this downsizing; but, in regard to defense industry production capability, the reduction of human capital is the most critical of the two.

What is the Importance of Strategic Human Capital to the United States?

Strategic human capital is a notion with powerful implications-especially when linkages are made between national security objectives and the capabilities of experienced DOD and defense industry employees who are losing their jobs due to downsizing. An explanation for America's achievement of its

national security interests after World War II can be distilled down to the interplay between two major factors:

- (1) the abundance of the country's physical capital that enabled high levels of production and distribution of goods to satisfy domestic and international demand; and
- (2) the capabilities of Americans to produce goods and services through their work innovations in mines, fields, factories, offices, and storefronts across the country.

Since the United States' emergence as a post-World War II superpower, government policymakers have emphasized leveraging physical capital to achieve national security objectives. Unfortunately, less attention has been devoted to understanding the value that human capital brings to America's accomplishment of its strategic political, economic, and military objectives. This category of oversight has led to the shortcomings of current downsizing and re-employment policies.

Three Strategic Blind Spots

Current downsizing and re-employment policies have clearly achieved short-term, tactical objectives but there are three blind spots which limit their effectiveness at a strategic level. First, policymakers have not understood how human capital actually contributes to the work processes that lead to the achievement of national security objectives. Industry and public sector downsizing policies have focused on changing the structure of organizations to quickly produce cost efficiencies. At the same time, however, administrators and managers, in both the public and private sector have:

- (1) neglected to *empirically assess the impact* on the productive capacities of the remaining employees; and,
- (2) neglected to *empirically assess the strategic value* of the workforce they have discharged.

Next, there appears to be a failure to recognize that the knowledge, skills and abilities gained by displaced workers over their work histories can actually be leveraged by growth industries that are critical to achieving our national security objectives. These employees' capabilities were highly valued by both the public and private sectors **before** downsizing began. Yet, as victims of downsizing, many are recast as antiquated and expendable resources. This blind spot is exacerbated by managers' reluctance to *empirically* determine how these displaced workers can best be transferred to different industries that can make the greatest use of their capabilities. This shortcoming has also led to re-employment strategies and training opportunities that are based on approaches that best assist the least experienced workers, rather than approaches to best assist experienced displaced workers. Current re-employment strategies treat unemployed mature adults with extensive work experience, financial obligations, and personal responsibilities the same as first time job entrants in their early 20's; and this is a serious oversight. Downsized workers can best profit from training that is tailored toward accentuating their existing skill and knowledge base and facilitating their rapid re-employment in firms that reside in the region where they live.

The first two blind spots have set up the conditions for the third-there has been very little if any proactive, strategic planning directed toward mitigating the regional impacts of defense downsizing. Regions that have hosted large-scale industries and government agencies for generations have also developed community infrastructures such as education and training centers, banking services, shopping centers, housing developments, and transportation systems around those work centers. Large industries

and the government agencies are therefore participants in a larger network of community organizations that depend on the payrolls these employers generate. If downsizing requires displaced employees to leave the region in search of jobs, then the vitality of this type of community network will suffer what has been termed "collateral damage." From a strategic perspective, it is in the nation's best interests to prevent a rational objective of reducing unnecessary infrastructure and manpower from unintentionally leading to the economic decline of sectors of regional and state economies.

Securing Strategic Human Capital Through Strategic Transfer

The concept of *strategic transfer* addresses the movement of workers, and the competencies they possess, across industries and occupations but within the geographical region where they currently reside. The objective of strategic transfer is to facilitate the movement of displaced workers from industries that are downsizing to moderate and high growth industries that either currently exist in the same region or can be attracted to the region.

World War II mobilization and demobilization efforts are the closest historical example of strategic transfer in America. During that very different time, people could perform the work required for the war effort with the same types of basic skills and education that they used in their jobs or daily activities before the war. The occupation-specific skills in factories, ports, and within the War Department could be trained relatively quickly or learned on the job. At the end of the war the transformation process was put into reverse; factories returned to producing consumer goods, people were discharged from military service, civilians left the War Department, and working women returned to their homes. Consequently, America's mobilization and demobilization of human capital resulted in citizens transferring to and from defense occupations with little difficulty.

Today, jobs in both the military-industrial complex and in the non-defense sector require higher levels of basic and cross-level skills, and occupational specific competencies. With these specific requirements comes the possibility of highly incompatible employee competencies across the two sectors. As a result, the flow between the sectors can be problematic. Some workers' competencies are *only used and only developed* within the military-industrial complex. For example, the occupational specific competencies needed for munitions storage and disposal, or submarine construction, or battle tank design are not found among workers in non-defense firms. Consequently, the concentration of these capabilities may be dispersed and run the risk of extinction if the displaced workers who possessed them seek other jobs in different geographical locations that did not require these skills.

There are other occupationally specific competencies that are found in both sectors of the economy, such as the skills and knowledge required for civil engineering, or the technical skills required for medical technicians, communications/electronics maintenance technicians, law enforcement, and vehicle maintenance. Over the years the defense sector has developed sufficient numbers of people with these competencies to meet its requirements. Demand in the non-defense sector for these workers has also remained high. When defense downsizing releases workers with highly valued competencies into the non-defense sector, the military-industrial complex runs the risk that there will be a limited supply of these workers for transfer back into defense firms if they are needed at a later time.

The distributions of strategic competencies and the specific restrictions they can impose on reconstitution efforts indicate that strategic transfer must serve two purposes. At a minimum, strategic transfer must insure:

(1) Relatively fast re-employment of DOD and defense industry workers into the non-defense private sector.

(2) Preservation of strategic competencies in the non-defense private sector for potential reuse in the military-industrial complex.

This contemporary approach to strategic transfer of human capital will make a unique contribution to the current re-employment interventions. It will cause policymakers and managers to focus on identifying downsized workers' acquired competencies and on the ways this human capital can attract new industries into affected regions.

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